

Message Text

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ACTION PM-03

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FM AMEMBASSY ATHENS

TO SECSTATE WASHDC IMMEDIATE 8615

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C O N F I D E N T I A L ATHENS 3348

DEPARTMENT PASS DOD

E.O. 11652: GDS

TAGS: MASS, EAIR, EINV, EIND, BEXP, GR, US

SUBJECT: NATIONAL AVIATION EQUIPMENT INDUSTRY (FORMERLY
HELLENIC AIRCRAFT INDUSTRY)

REF: (A) STATE 89052 (B) ATHENS 3329

1. SUMMARY-IN COURSE OF DISCUSSING \$25 MILLION FMS-
GUARANTEED FNCB LOAN FOR NATIONAL AVIATION EQUIPMENT INDUSTRY
(EBAY) PROJECT, GOG REPS EXPRESSED STRONG PREFERENCE FOR
UTILIZATION OF FUNDS FOR ORIGINAL PROJECT, RATHER THAN
TRANSFERRING THEM TO CURRENT YEAR AIRCRAFT PAYMENTS AND
REAPPLYING FOR A FUTURE FMS CREDIT FOR EBAY. THEY PROPOSED
COMPLETE DRAWDOWN OF LOAN BY JUNE 1 WITH DEPOSIT OF SUM IN
BLOCKED DOLLAR ACCOUNT IN ETVA OR BANK OF GREECE, COUPLED
WITH ARRANGEMENTS THAT FUNDS WOULD BE DISBURSED ONLY FOR
EBAY PURCHASES AS APPROVED BY USDOD. LOCAL FNCB REP GAVE
PERSONAL OPINION THAT FNCB WOULD FIND THIS PROPOSAL ACCEPTABLE.
THIS ARRANGEMENT WOULD ALSO GIVE GOG AN ADDED INCENTIVE TO
EXPEDITE PROJECT IN NEAR FUTURE, THUS FIRING UP SIGNIFICANT
U.S. EXPORT OPPORTUNITY.

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ACTION REQUESTED: EMBASSY BELIEVES THIS PROJECT IS ON THE

TRACKS AT LAST, AND THAT GOG IS DEVOTING PRIORITY ATTENTION TO IT. EMBASSY STRONGLY RECOMMENDS POSITIVE RESPONSE TO GREEK PROPOSAL, BY NO LATER THAN MAY 6 IF AT ALL POSSIBLE.

2. AFTER SEVERAL PRELIMINARY DISCUSSIONS BETWEEN EMBOFFS AND GOG OFFICIALS CONCERNING \$25 MILLION FMS-GUARANTEED FNCB LOAN FOR NATIONAL AVIATION EQUIPMENT INDUSTRY (EBAY), COORDINATION MINISTRY ORGANIZED MEETING APRIL 30 INCLUDING REPS FROM BANK OF GREECE, HELLENIC NAVY AND AIR FORCE, HELLENIC INDUSTRIAL DEVELOPMENT BANK (ETVA), AND LOCAL FNCB BRANCH.

3. SECRETARY GENERAL OF COORDINATION MINISTRY THEOFANOUS COMMENCED BY REVIEWING BACKGROUND OF PROJECT AND NEW TERMS PROPOSED BY FNCB. HE POINTED OUT THAT PARLIAMENT HAS NOW GIVEN AUTHORITY TO GOG TO SIGN EBAY CONTRCT (SEE REF. B). WITH RESPECT TO FNCB TERMS, OUTLINE IN REF. A IS ACCURATE, EXCEPT THAT LENDING RATE WOULD BE INCREASED TO 1-3/8 PERCENT OVER FNCB BASE, NOT 1-1/2 PERCENT. (FNCB REP NOTED THAT MARGINAL COST OF MONEY DICTATED 1-1/2 PERCENT, BUT FNCB MADE REDUCTION AS GESTURE OF GOODWILL.)

4. ECON COUNSELOR THEN REVIEWED POSSIBLE ALTERNATIVES NOW OPEN TO GOG, IN LIGHT OF USG RELUCTANCE TO CONTINUE FMS GUARANTEE IF FNCB CHANGES ITS TERMS, AS OUTLINED IN REF. A: (A) DRAWDOWN FOR EBAY PROJECT OF ENTIRE \$25 MILLION BY JUNE FIRST UNDER EXISTING FNCB TERMS:

(B) OBTAINING AGREEMENT BY FNCB TO EXTEND AVAILABILITY AND GRACE PERIODS, BUT TO MAINTAIN ORIGINAL LENDING RATE AND COMMITMENT FEE, WITH REPAYMENT OF ALL PRINCIPAL BY JUNE 1, 1985;

(C) DRAWDOWN OF \$25 MILLION BY JUNE 1 FOR PAYMENTS DUE ON AIRCRAFT FOR 4TH QUARTER FY 75 AND 1ST QUARTER FY 76, WITH GOG REAPPLYING SUBSEQUENTLY FOR NEW LOAN FOR EBAY. AFTER CONSIDERABLE DISCUSSION, THE FOLLOWING OBSERVATIONS EMERGED ON THE VARIOUS OPTIONS.

5. MAINTAINING ORIGINAL FNCB INTEREST RATE AND COMMITMENT FEE-SINCE IT WAS EVIDENT THAT, UNDER THE CURRENT GOG REQUEST, FNCB COULD NOT MODIFY ITS TERMS, THEOFANOUS QUERIED WHETHER FNCB COULD MAINTAIN ITS ORIGINAL INTEREST CHARGE AND COMMITMENT FEE IF GOG LIMITED ITS REQUEST TO ONLY A CONFIDENTIAL

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TWELVE-MONTH EXTENSION (RATHER THAN 18 MONTHS), WITH NO ADDITIONAL GRACE PERIOD-I.E., A VARIATION OF OPTION (B) ABOVE. FNCB REP AGREED PURSUE THIS LINE WITH FNCB NEW YORK, BUT IT APPEARS UNLIKELY THAT THIS A VIABLE SOLUTION, GIVEN HIS EXPLANATION FOR 1-3/8 PERCENT OVER BASE RATE.

6. USE OF FUNDS FOR EBAY-WITH RESPECT TO OPTION (A) ABOVE, THEOFANOUS POINTED OUT THAT IT WOULD BE IMPOSSIBLE

TO UTILIZE ANY SIGNIFICANT PORTION OF \$25 MILLION FOR PAYMENTS TO CONTRACTORS BY JUNE 1. HE ASKED IF, INSTEAD, THE SUM COULD BE DRAWN BY GOG BEFORE JUNE 1 AND PLACED IN BLOCKED "ESCROW" DOLLAR ACCOUNT WITH ETVA OR BANK OF GREECE, WITH STIPULATION THAT SUBSEQUENT DISBURSEMENTS COULD BE MADE ONLY FOR EBAY PROJECT. (ETVA, WHOLLY OWNED BY GOG, IS A MINORITY SHAREHOLDER IN EBAY--GOG HOLDS MAJORITY.)

7. ECON COUNSELOR NTED THAT SECTION 1.10 OF LOAN AGREEMENT PROVIDES THAT LOAN SHALL BE USED ONLY "FOR PROCUREMENT OF DEFENSE ARTICLES AND DEFENSE SERVICES...AS APPROVED BY THE UNITED STATES DEPT. OF DEFENSE"; AND THAT WRITTEN DOD APPROVAL MUST BE FURNISHED TO FNCB PRIOR TO THE INITIAL ADVANCE. THEOFANOUS SUGGESTED THAT GOG COULD EITHER SEEK FROM DOD BLANKET APPROVAL FOR EBAY OR, ALTERNATIVELY, SEPARATE APPROVALS ON SPECIFIC ITEMS BEFORE ANY DISBURSEMENTS FROM THE BLOCKED ACCOUNT COULD BE MADE. FNCB REP EXPRESSED NON-BINDING PERSONAL VIEW THAT THIS ARRANGEMENT WOULD BE ACCEPTABLE TO FNCB, AND AGREED TO CABLE FNCB NEW YORK IMMEDIATELY ON THIS POINT.

8. GOG RECOGNIZED THAT THIS ALTERNATIVE HAS A DISADVANTAGE TO GOG IN THAT INTEREST WOULD BE PAYABLE BEFORE FUNDS COULD BE USED, BUT NEVERTHELESS, DUE TO CONSIDERATIONS DISCUSSED IN PARA 9, GOG WOULD STRONGLY PREFER THIS ARRANGEMENT. ADVANTAGE TO U.S. OF THIS ARRANGEMENT IS ADDED INCENTIVE FOR REASONABLY EXPEDITIOUS FORWARD MOTION ON PROJECT AND SUBSEQUENT FIRMING UP OF LARGE-SCALE SALES OF U.S. GOODS AND SERVICES.

9. USE OF \$25 MILLION FOR AIRCRAFT PAYMENTS (OPTION C, PARA. 4)-ECON COUNSELOR EMPHASIZED BALANCE OF PAYMENTS ADVANTAGES TO GREECE OF THIS ALTERNATIVE, BY ALLOWING SPEEDIER

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DISBURSEMENT OF THE \$25 MILLION IN CY 1975. WHILE COORDINATION MINISTRY AND BANK OF GREECE APPRECIATED PRACTICALITY OF THIS OPTION, LACK OF ENTHUSIASM WAS APPARENT, ESPECIALLY FROM HELLENIC AIR FORCE PARTICIPANTS. THEY EXPLAINED THEIR CONCERN THAT, IF THE \$25 MILLION IS USED NOW FOR AIRCRAFT PAYMENTS, COMPETING PRIORITIES FROM OTHER GREEK ARMED SERVICES MIGHT MAKE IT DIFFICULT TO SECURE INCLUSION OF EBAY IN FUTURE FMS PROGRAM. A MAJOR CONCERN TO GOG IS RISK OF REAPPLICATION FOR EBAY--IN EFFECT, GOG SEEKS USG ASSURANCE THAT NEW APPLICATION WOULD RECEIVE SYMPATHETIC TREATMENT.

10. COMMENT EMBASSY BELIEVES GOG PROPOSAL FOR UTILIZING THE \$25 MILLION FOR EBAY VIA THE BLOCKED ACCOUNT APPROACH IS A VIABLE SOLUTION TO THIS PROBLEM, ESPECIALLY IF COUPLED WITH ARRANGEMENTS SATISFACTORY TO DOD CONCERNING APPROVAL

OF ITEMS TO BE PURCHASED UNDER THE LOAN, EMBASSY RECOMMENDS
WASHINGTON APPROVAL OF THIS OPTION. IF, HOWEVER, THIS IS
NOT FEASIBLE, AND USG INSISTS ON OPTION (C) IN PARA 4 ABOVE,
WE RECOMMEND STRONG ASSURANCES TO GOG THAT EBAY REAPPLICATION
WOULD RECEIVE SYMPATHETIC CONSIDERATION.
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